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Rhode Island Current Conditions Index -- January 2019

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CURRENT CONDITIONS INDEX

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Now that the labor market data for Rhode Island have been revised, we have a much better understanding of actual changes that occurred over the past few years. While many of the revisions were highly negative, most notably the employment measures, ironically annual rates of growth upon which the Current Conditions Index is based, actually improved. This highlights one of the critical secrets of Rhode Island's recent statistical "success:" **small denominators**. Downward revisions to values reduce the base upon which growth rates for subsequent periods are calculated. This has been occurring with real GDP growth for several years now and has apparently spilled over to other measures, such as individual indicators in the CCI.

Before I detail this month's CCI results in light of the newly revised data, let me state that this was one of the most bizarre revisions of historical data that I can recall in a very long time. First the depressing employment numbers: According to the data revisions, payroll employment, the number of jobs in RI was 7,300 lower than the earlier data for December of 2018. For January, we returned to our prior peak in December of 2006! Resident employment, the number of employed RI residents, fared little better - its December 2018 level was 5,400 less. It never was above its prior peak. The employment rate, the percentage of our working-age population that is employed was also revised downward. In addition to this (as if that's not bad enough), the **Labor Force** was revised lower for every month

indicators improved. In spite of this, we failed to improve on the year-ago CCI value, something likely to recur numerous times this year. Weakness that began in May of last year appears to be continuing, which is evident in several of the CCI indicators. Overall, only two of the five leading indicators contained within the CCI improved. **Employment Service Jobs**, a leading indicator that includes temps, rose by 0.8 percent in January, but based on upward revisions in 2017, *rates of growth* in 2018 have been declining since August. **New Claims**, the most timely measure of layoffs, improved in January (-4.8%), its third improvement in the last seven months. It remains unclear whether it will resume an downtrend anytime this year.

US Consumer Sentiment fell again for the fourth time in the last six months, no doubt hurt by the shutdown. Rhode Island's goods-producing sector fared poorly again in January. **Single-Unit Permits**, a measure of new home construction, fell yet again (-6.8%), its seventh decline in the last eight months. Declining interest rates will likely not give as much of a boost to this indicator as you might think (RI has a static population). **Total Manufacturing Hours**, a proxy for manufacturing output, has now declined for the most recent four months, with the rate of decline accelerating dramatically over the past two months. Even downward revisions in 2017 could not help this indicator. The **Manufacturing Wage** actually rose in January (+1.8%), but this was only its first increase since September.

Our state's **Labor Force** reached its most recent peak in October and has plateaued at that value ever since, but at declining rates of annual growth. Along with this, the labor force participation rate also fell in January. The **Unemployment Rate** has remained at 4 percent since October, certainly not the result of robust job growth.

Retail Sales grew again in January (+1.2%), **Government Employment** rose from its level a year ago for a fifth consecutive month (+0.7%), **Private Service-Producing Employment** growth remained weak (+0.5%), and **Benefit Exhaustions**, the timeliest measure of longer-term unemployment, fell sharply in January (-22.1%).

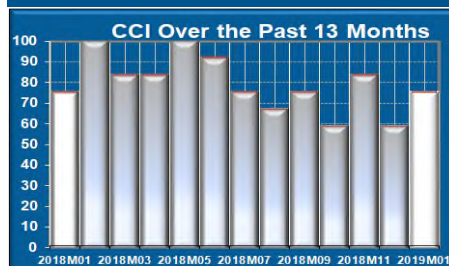
| CCI Indicators - % Change | |
|----------------------------|---------|
| Government Employment | 0.7 Y |
| US Consumer Sentiment | -4.4 |
| Single-Unit Permits | -6.8 |
| Retail Sales | 1.2 Y |
| Employment Service Jobs | 0.8 Y |
| Priv. Serv-Prod Employment | 0.5 Y |
| Total Manufacturing Hours | -7.1 |
| Manufacturing Wage | 1.8 Y |
| Labor Force | 0.1 Y |
| Benefit Exhaustions | -22.1 Y |
| New Claims | -4.8 Y |
| Unemployment Rate (change) | -0.4 Y |
| Y = Improved Value | |

since January of 2017. **Total Manufacturing Hours** and **Private Service-Producing Employment** were also revised lower. What was revised higher? Think Redundancy Island (i.e., RI) - **Government Employment**. Big surprise!

What was bizarre? As you can see from the table of CCI values below, many of last year's CCI values were revised higher and, ready for this ... the CCI attained its maximum of 100 *twice* last year. In fact, for nine of the twelve months last year, the CCI was revised higher (typically by +1 improving indicator).

Rhode Island begins 2019 on a positive note, kind of. The CCI rose from its December value of 58 to 75, as nine of its twelve

| LABOR FORCE: | Jan 2019 | Peak (1/2007) |
|--------------------|----------|---------------|
| Participation Rate | ↓ 64.5% | 68.6% |
| Employment Rate | ↓ 61.9% | 65.4% |



| DLT Jan 2019 Employment (SA,Y/Y) | |
|----------------------------------|-------|
| Gain | 8,200 |
| Loss | 1,100 |
| Net Chg | 7,100 |

| 75 | | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|----|------|-----|------|-----|-----|------|-----|-----|-----|-----|-----|-----|-----|
| | 2018 | 75 | 100↑ | 83↑ | 83↑ | 100↑ | 92↑ | 75 | 67↓ | 75↑ | 58↑ | 83↑ | 58↑ |
| | 2019 | 75 | | | | | | | | | | | |